

Budget Brief – Capital Developments

NUMBER CFGO-08-28

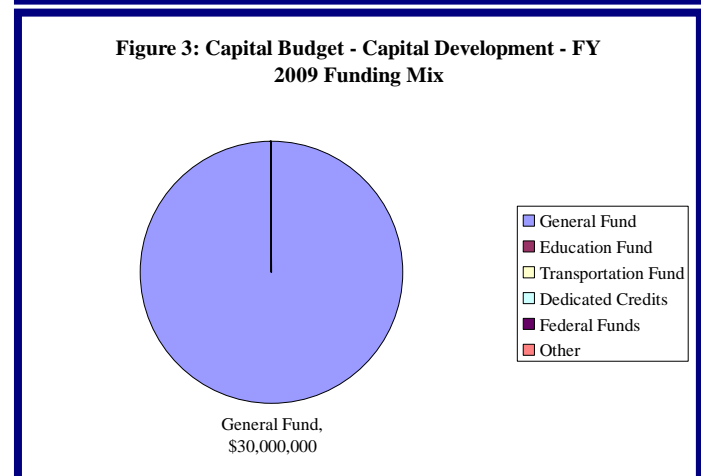
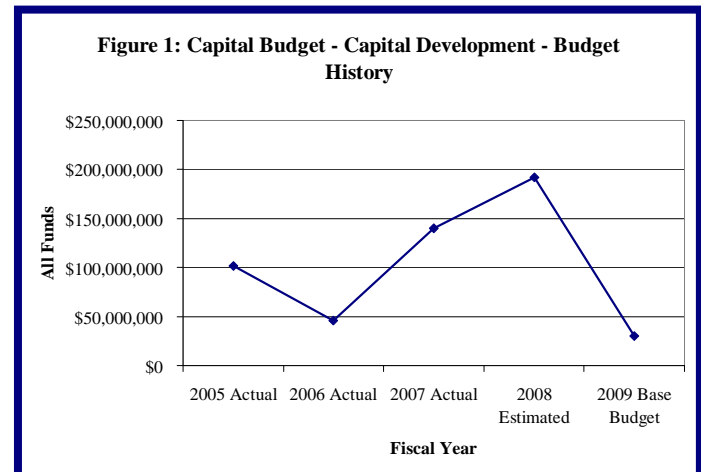
SUMMARY

UCA 63A-5-104 defines “Capital Developments” as either of the following:

- A remodeling, site, or utility project with a cost of \$2,500,000 or more
- A new facility with a construction cost of \$500,000 or more
- A purchase of real property where an appropriation is requested to fund the purchase

The State Building Board develops and maintains a Five-Year Building Program for submission to the Governor and Legislature. The book includes a priority list of capital developments, detailed information for each project recommended in the first two years, a summary of Contingency Fund and Project Reserve Fund balances, a leasing report, and results of facilities condition assessments including cost of needed improvements. A copy of the book will be given to every member of the Legislature at the start of the General Session.

Capital Development requests are traditionally categorized as “State-Funded” or “Other-Funded.” State Funded requests include all projects that are requesting general tax funds. These projects compete for prioritization in the Building Board’s plan and, if applicable, the Board of Regents’ evaluation. “Other Funded” requests can be revenue bonds, donations, restricted funds, federal funds, etc., and are not prioritized by the Building Board or the Regents.



ISSUES AND RECOMMENDATIONS

Reallocate \$551,000 from Capital Project Fund

During the 2007 General Session DFCM identified two items that had contributed money to the state’s Capital Project Fund (sale of Devereaux House and an asbestos litigation award). The Legislature appropriated \$551,000 from these funds to upgrade the former P.O.S.T. Building for occupation by the Division of Emergency Services and Homeland Security (other funds went to the Capitol Building and the SWATC land purchase). The intent was to move Homeland Security off of Capitol Hill into a more secure location. Recent studies have shown that the building is near a fault line and therefore is not secure enough for Homeland Security purposes. The division has chosen to submit a new request to the Building Board and Legislature through the Capital Development process next year.

The Analyst recommends the \$551,000 be reallocated to DFCM’s Planning Fund. The Planning Fund is established by UCA 63A-5-211 and can be used for engineering, architectural, and other planning expenses necessary to make a meaningful cost estimate of any facility or improvement with a demonstrable or immediate need. The director may make expenditures from the fund in order to provide planning information to the State

Building Board, the governor, and the Legislature, up to a maximum of \$350,000 in outstanding commitments. During the 2007 Interim DFCM used the final \$350,000 from the fund for planning on the DHS replacement building, so that the project could begin construction as soon as possible after the 2008 General Session. DFCM also used the fund in recent years for the Salt Lake area government office needs study. If funds are spent planning a project that the Legislature ultimately approves, the fund is reimbursed from the project. But sometimes funds are spent on projects that don't receive reimbursement from the Legislature. At its peak the fund had \$1 million. The current balance, after expenses for planning the DHS Building, is less than one dollar.

Transfer \$1M from Contingency Reserve Fund

The FY 2007 closing balance of the Contingency Reserve Fund (CRF) was \$6,649,600, and the closing balance of the Project Reserve Fund (PRF) was \$2,907,000. The January, 2008 balances were \$7,753,100 and \$4,768,900. The January balance includes an expense of \$2.3 million to settle change orders on the Marriott Library at the University of Utah. FY 2006 closing balances were \$3,079,100 for the CRF and \$5,762,900 for the PRF. January, 2007 balances were \$8,979,100 and \$2,520,800. As of January, 2008, the CRF balance is approximately \$1.2 million less than one year ago, and the PRF balance is approximately \$2.2 million more than one year ago. During the 2007 General Session the Legislature appropriated \$2,000,000 from the CRF to purchase property. The Analyst recommends the 2008 Legislature appropriate \$1,000,000 from the CRF for other subcommittee priorities, but the Analyst recommends they remain in the Capital Budget since they come from appropriations to capital projects.

Construction inflation outlook

Despite reduced residential construction nationwide, nonresidential construction jumped twelve percent in 2006 and another fourteen percent in the first eight months of 2007. Prices of many construction materials skyrocketed from 2004 to mid-2006. Since then prices have moderated, but the cumulative increase in the producer price index (PPI) for construction inputs since December 2003 (28 percent) remains more than double the thirteen percent increase in the general consumer price index (CPI). According to the Association of General Contractors (ACG), in the next several months the PPI for construction inputs is expected to accelerate to a 3-5 percent annual rate of increase from the recent 1.5-3 percent range. By the end of 2008, and indefinitely thereafter, construction input costs are likely to be rising at 6-8 percent. The recent lowering of the U.S. interest rate may depress the dollar further, making imports such as petroleum more expensive and possibly pushing up inflation rates. It appears that segments of the nonresidential construction market, such as public construction, will continue to expand rapidly through 2008. (*Source: ACG Inflation Alert, October 2007.*)

Ongoing Funds in the Base Budget

The 2007 Legislature appropriated \$30 million in ongoing funds for capital development projects. This amount is equal to the amount appropriated by the 2006 Legislature. The 2005 Legislature appropriated \$37.7 million in ongoing funds. Leaving ongoing funds in this line item serves two purposes: 1) It puts the state in a partial pay-as-you-go approach to financing buildings; and 2) It establishes a "working rainy day fund" that could be used in case of budget deficits. Credit rating agencies view these conditions favorably because they increase unrestricted fund balances, show capital planning beyond the next fiscal year, reduce debt as a percentage of personal income and state tax revenues, and demonstrate flexible management policies. The Analyst recommends the Legislature continue to leave ongoing funds in the Capital Development line item and use available one-time money to supplement ongoing funds as much as possible.

Retired Bonds in FY 2008

The state will retire \$54,265,000 and \$54,770,000 in facilities general obligation (G.O.) debt in FY 2008 and 2009, respectively. The 2007 Legislature didn't authorize G.O. bonding for buildings, although it authorized \$1.1 billion for highways. The 2006 Legislature authorized \$110 million in G.O. bonding for USTAR capital projects at the University of Utah and Utah State University. The bonds have not been issued yet, but may be issued in FY 2008. The 2005 Legislature authorized general obligation bonds only for the Veteran's Nursing Home at \$4.5 million (also pending).

Project Recommendations for 2008 General Session

Please see Issue Brief CFGO-08-06 for a list of Building Board priorities, Board of Regent priorities, UCAT priorities, Governor recommendations, and Analyst recommendations.

Legislatively Approved Projects – 2007 General Session**Legislatively Approved Capital Budget - 2007 Session**

<u>State Funded Projects</u>	<u>State Funds</u>	<u>G.O. Bonds</u>	<u>Other Funds</u>	<u>Anticipated Donations</u>	<u>Total</u>	<u>Bill(s)</u>
Capital Improvements	\$73,059,900				\$73,059,900	H.B. 1
CPB State Capitol Renov/Parking	\$50,000,000				\$50,000,000	H.B. 150
Peace Officers Memorial	\$500,000				\$500,000	H.B. 150
Health Lab Module 1	\$30,852,000				\$30,852,000	H.B. 150
WSU Classrm/Chiller Plant	\$22,950,000			\$6,000,000	\$28,950,000	H.B. 150
DPS/DMV Joint Bldg S SL County	\$5,342,000				\$5,342,000	H.B. 150
DATC Tech/Manuf Bldg	\$14,240,000			\$760,000	\$15,000,000	H.B. 150
Snow Library/Classroom Bldg	\$17,651,000			\$3,300,000	\$20,951,000	H.B. 150
Courts St. George Courthouse	\$29,000,000				\$29,000,000	H.B. 150
DPS/UDC/SLCC Train Ctr Design	\$1,277,400				\$1,277,400	H.B. 150
USU Ag Building Planning	\$2,500,000				\$2,500,000	H.B. 150
UU Nursing Bldg Renov/Expans	\$13,500,000			\$9,000,000	\$22,500,000	H.B. 150
MATC N Utah Co Bldg Planning	\$1,000,000				\$1,000,000	H.B. 150
Subtotal Projects	\$261,872,300	\$0	\$0	\$19,060,000	\$280,932,300	
<u>State Funded Acquisitions</u>						
CEU Dorms Payoff	\$3,000,000		\$154,500		\$3,154,500	S.B. 1
DSC Aux Bldgs Rev Bond Payoff	\$4,200,000				\$4,200,000	S.B. 3
Heber Wells Bldg Parking Replace	\$1,500,000				\$1,500,000	S.B. 3
USU Uintah Basin Bond Payoff	\$400,000				\$400,000	S.B. 3
Capitol Bldg Wireless Tech	\$342,200		\$400,000		\$742,200	H.B. 150
Subtotal Acquisitions	\$9,442,200	\$0	\$554,500	\$0	\$9,996,700	
Total State Funded	\$271,314,500	\$0	\$554,500	\$19,060,000	\$290,929,000	
<u>Other Funded Projects</u>						
DABC Three Liquor Stores	\$5,662,000				\$5,662,000	H.B. 473
UCI Production Warehouse	\$1,476,000				\$1,476,000	H.B. 473
UU Student Life Center		\$42,500,000			\$42,500,000	H.B. 473
SUU Dormitories		\$17,500,000			\$17,500,000	H.B. 473
POST Building Improvements			\$551,000		\$551,000	H.B. 150
SWATC Land Purchase			\$2,282,000		\$2,282,000	H.B. 150
UDOT Panguitch Maint Shed			\$2,000,000		\$2,000,000	H.B. 150
SLCC Facilities/Parking Bldg			\$2,500,000		\$2,500,000	H.B. 473
WSU Lifelong Learning Bldg			\$3,000,000	\$5,000,000	\$8,000,000	H.B. 473
DHS Building Sale			(\$11,000,000)		(\$11,000,000)	H.B. 473
DHS Bldg Rev Bond Payoff			\$4,500,000		\$4,500,000	H.B. 473
USDB Bldg Purchase/Improve			\$6,500,000		\$6,500,000	H.B. 473
USU Tooele County Bldg				\$1,200,000	\$1,200,000	H.B. 473
SEATC/CEU/LDS Property Exch					\$0	H.B. 473
MATC/UTA/Lehi City Prop Exch					\$0	H.B. 473
Total Other Funded	\$7,138,000	\$60,000,000	\$10,333,000	\$6,200,000	\$83,671,000	
<u>Appropriated Separately</u>						
DNR State Park Renovations	\$2,225,000				\$2,225,000	S.B. 3

BUDGET DETAIL

The base budget of \$30 million is currently all General Funds. The Legislature can easily change the mix of funding sources between General Funds and Education Funds as necessary.

The table below does not include five projects funded in the 2007 General Session in the "Property Acquisition" line item. That line item is used for capital developments which are acquisitions of existing property.

Appropriations were: SWATC Land \$2,282,000 (non-state funds); CEU Dormitories Bond Payoff - \$3,000,000; USU Uintah Basin Bond Payoff - \$400,000; DSC Auxiliary Building Bond Payoff - \$4,200,000; and Heber Wells Building Parking - \$1,500,000.

LEGISLATIVE ACTION

The Analyst recommends the Legislature adopt:

1. A total FY 2009 base appropriation of \$30,000,000 for the Capital Development Line Item. Allocations to specific projects, additional funds, and amendments to funding sources will be made in subsequent appropriation bills.
2. Reallocation of \$551,000 from the POST Building to the DFCM Planning Fund.
3. A transfer of \$1 million from the Contingency Reserve Fund to other subcommittee priorities.

BUDGET DETAIL TABLE

Capital Budget - Capital Development						
Sources of Finance	FY 2007 Actual	FY 2008 Appropriated	Changes	FY 2008 Revised	Changes	FY 2009* Base Budget
General Fund	10,791,200	30,000,000	0	30,000,000	0	30,000,000
General Fund, One-time	64,208,800	87,313,600	0	87,313,600	(87,313,600)	0
Education Fund	19,208,800	0	0	0	0	0
Education Fund, One-time	44,483,200	71,841,000	0	71,841,000	(71,841,000)	0
Transportation Fund, One-time	1,200,000	2,000,000	0	2,000,000	(2,000,000)	0
Capital Project Fund	0	951,000	0	951,000	(951,000)	0
Total	\$139,892,000	\$192,105,600	\$0	\$192,105,600	(\$162,105,600)	\$30,000,000
Programs						
Capital Development Fund	0	0	0	0	30,000,000	30,000,000
CPB State Capitol Building	50,000,000	51,242,200	0	51,242,200	(51,242,200)	0
UDC Gunnison Inmate Housing	20,000,000	0	0	0	0	0
POST Building	0	551,000	0	551,000	(551,000)	0
UVSC Digital Learning Center	46,750,000	0	0	0	0	0
Unified Health Lab	0	30,852,000	0	30,852,000	(30,852,000)	0
UBATC/USU Vernal Building	9,942,000	0	0	0	0	0
DNR Midway Fish Hatchery	5,000,000	0	0	0	0	0
USU Agriculture Campus	5,000,000	0	0	0	0	0
UDOT Clearfield Maintenance Complex	1,200,000	0	0	0	0	0
WSU Classroom Building/Chiller Plant	2,000,000	22,950,000	0	22,950,000	(22,950,000)	0
DPS/Tax Joint DL/DMV Building	0	5,342,000	0	5,342,000	(5,342,000)	0
DATC Technology/Manufacturing Building	0	14,240,000	0	14,240,000	(14,240,000)	0
Snow College Library/Classroom Building	0	17,651,000	0	17,651,000	(17,651,000)	0
Courts St. George Courthouse	0	29,000,000	0	29,000,000	(29,000,000)	0
UDOT Panguitch Maintenance Complex	0	2,000,000	0	2,000,000	(2,000,000)	0
SLCC Public Safety Training Center	0	1,277,400	0	1,277,400	(1,277,400)	0
USU Agriculture Building	0	2,500,000	0	2,500,000	(2,500,000)	0
UU Nursing Building	0	13,500,000	0	13,500,000	(13,500,000)	0
MATC N. Utah County Building	0	1,000,000	0	1,000,000	(1,000,000)	0
Total	\$139,892,000	\$192,105,600	\$0	\$192,105,600	(\$162,105,600)	\$30,000,000
Categories of Expenditure						
Other Charges/Pass Thru	139,892,000	192,105,600	0	192,105,600	(162,105,600)	30,000,000
Total	\$139,892,000	\$192,105,600	\$0	\$192,105,600	(\$162,105,600)	\$30,000,000

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.